

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 12/31/2015

GAIN Report Number: IT1590

Italy

Retail Foods

2015 Italian Food Retail and Distribution Sector Report

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Report Highlights:

In Italy, the food retail and distribution sector continues to be quite fragmented. Traditional grocery stores continue to represent the majority share of the outlets, with few large retailers and many small local retail stores. Fortunately, consolidation is gaining momentum with Italian and foreign operators starting to expand their network of stores. This report provides an overview of the grocery retail sector and how best to place U.S. products in the Italian market.

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Section I. Market Summary

Unlike other European nations, the Italian food retail and distribution sector continues to resist consolidation with small, traditional grocery stores (so-called Mom and Pop stores) representing the largest segment of the food retail sector, followed by open-air markets. Nonetheless, consolidation is slowly gaining momentum, as a few Italian and foreign operators are starting to expand their network of stores, particularly in the south of the country. Larger food retailers are starting to appeal to those consumers who are attracted by the convenience that one-stop shopping offers, and appreciate the wide range of products and additional services that larger retail formats provide. Social changes, including smaller family sizes, longer working hours, more working women, an increasing number of single households. An ageing population also is contributing to this change.

Italy's food distribution system has noticeable differences in terms of sector growth between the north and south. Planning laws in Italy tend to favor smaller stores, and no planning permission is needed for outlets with a sales area of less than 250 square meters in towns of more than 10,000 people. Local communities tend to dislike the development of large stores (particularly hypermarkets in city centers), and Italian zoning laws require the permission from both local and regional authorities, making it more difficult to obtain permission for the larger stores.

Private label brands continue to gain momentum, and have graduated from staple products to organic, gluten free and other specialty products. However, Italian consumer acceptance of retailer brands is lower than in other European countries, including France, Spain, Germany and the United Kingdom. Social changes, including smaller family sizes, an increasing number of single households and an aging population have affected consumption patterns. Demand for single-portion products, ready-made food products and convenience foods have increased. However, there are now signs that the combination of rising food prices and stagnant economic growth may be encouraging more Italian consumers to move away from branded products, providing a boost to producers of private labels. Italian consumers are quite discerning, and are prepared to sacrifice in other areas to ensure they buy quality food ingredients. The linkage between brand/quality may partly explain Italian consumers' reluctance to embrace private label products. Brand name producers currently even dominate the market for staple products, such as milk and pasta. Pasta producer Barilla controls around 45% of the Italian pasta market, and dairy producer Parmalat controls around one third of the market for shelf stable UHT milk.

The discount store format remains quite marginal, but with the economic downturn has improved somewhat. In general, Italian consumers remain hesitant to shop at discount stores and purchase

private label products. Coop Italia, Italy's largest retailer, however, has decided to invest in private label products. Coop has used private label products to drive down the price of staple foods and develop its group identity. Coop Italia now accounts for around 30% of all the private label products sold in Italy. However, the private label market is still very immature and offers enormous potential for growth. Industry sector sources predict that, as in other EU countries, consumers will move towards private label products in stages, with staples such as milk, bread and pasta being the first to register strong growth followed by more highly processed products such as confectionery and prepared meals. Although the market for private label goods in Italy is still relatively small in comparison with other Western European countries, this immaturity also means that there are currently growth opportunities.

Italy is a diversified industrial economy, divided into a developed industrial north, dominated by private companies, and a less-developed agricultural south, afflicted with high unemployment. This division is reflected in the distribution of retail outlets, with the majority of the supermarkets located in the north (53%), followed by the south (27%) and then by the central region of Italy (20%). While small neighborhood shops and specialty stores are still the norm, Italian consumers are discovering the convenience of large supermarket and hypermarket outlets. Italians still place great value on the quality and freshness of products (rather than frozen), which is reflected in the practice of daily shopping, rather than weekly bulk shopping. Larger supermarket and hypermarket stores are slowly introducing private label brands; however, unlike other European countries, consumer acceptance in Italy is still relatively low. Italian consumer purchasing habits place great value on the freshness and quality of products, therefore shopping several times a week versus other European countries where consumer patterns show a greater tendency towards once a weekly bulk purchasing.

The Italian population is aging and projected to decline in coming years. While living longer, Italians are having fewer children and marrying at a much later age. At the same time, continuing societal trends toward smaller families and an increasing number of women in the workforce are resulting in food retail outlets offering ready-made, ready-to-serve products and a wider range of products. However, contrary to trends across Europe, the majority of Italians still live in small cities and towns.

Retail Sector Strengths and Weakness

Advantages	Challenges
Italians are traveling more and becoming more aware of foreign cuisines.	Competition in the Italian food market is fierce and many consumers still prefer traditional Italian products.
Italy is a member of the Euro zone, which eases market entry.	The Italian retail sector is extremely fragmented, and the mandatory customs duties, sanitary inspections, and labeling requirements can be onerous.

Interest in new and innovative products, especially with a health twist.	Competition from similar food products produced in other EU countries that enter tariff free.
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Section II. Road Map for Market Entry

The best way to begin exporting to Italy is to either identify a key Buyer Group or an importer, as both know how to best navigate the import and distribution process and are able to engage directly with Italian food retailers. They are key to doing business in Italy. Food importing is a specialized business, and an importer plays a pivotal role in navigating the hurdles of Italian and EU food law. Importers normally carry a whole range of products. The terms and length of association between the U.S. Company and the Italian company are normally established by contract.

- Survey existing and potential opportunities by reviewing FAS GAIN reports and consider engaging a market research firm to assist in analyzing market opportunities and challenges.
- Establish a relationship with an Italian importer/distributor that provides services to the food-processing or retail sectors.
- Be prepared to start small by shipping a few pallets or cases of a product and recognize that it could take several months or years before an importer is ready to order full containers. Italians place a lot of importance on first building the trust to consolidate the business relationship.
- Be willing to meet special EU labeling requirements and consider working through a consolidator or participating in mixed container shipments.

Participation in some of the larger European international food trade shows (ANUGA and SIAL) offers a good opportunity to get a sense of the Italian market and provides the opportunity to meet potential Italian importers or distributors. Market entry to the Italian retail sector requires patience, and substantial homework on the part of the U.S. exporting company to ensure that all import regulations and labeling laws are met.

FAS Attaché Reports

Please see the following FAS Attaché reports for new-to-market exporters which can be found at the following website <http://italy.usembassy.gov/agtrade.htm>:

- The Exporter Guide which contains a general overview of the macro-economic situation, discusses demographic trends, food trends, offers exporter business tips and shares overviews of the food retail and HRI sectors.
- The Food & Agricultural Import Regulations and Standards (FAIRS) report provides an overview of import regulation standards and required health and origin certificates.
- The Hotel, Restaurant and Institution Sector report

- Select market briefs, commodity reports and policy updates

Section III. Competition

Currently, there are six major players in the Italian food retail and distribution sector: Co-op Italia, Conad, Interdis, Carrefour, Auchan and SPAR. Despite the continued presence of traditional outlets, as well as increased competition from domestic and international retailers, these retailers occupy a dominant position in the market. Four of the leading players - Co-op Italia, Interdis, SPAR and Conad - exist as consortiums of smaller operators and owe some of their success to their detailed knowledge of local requirements and shoppers' preferences. Other major mass grocery retailers in terms of sales revenue include Esselunga and Gruppo Pam. The principal foreign investors are the major French retailers Carrefour, Auchan and Leclerc, as well as the German retailer Rewe and German discount chain Lidl. Through establishing joint ventures with local operators, Leclerc, Carrefour and Auchan have been able to build up a nationwide presence. Despite these advances, Italian operators have also been expanding their retail footprint.

In October 2015 three supermarket chains announced their merge to form Coop Alleanza 3.0 (Alliance Cooperative 3.0). The merging partners are Coop Adriatica, Coop Estense and Coop Consumatori Nordest (Northeast Consumers Cooperative). Their merger brings the supermarket cooperative chain to a total of 2.7 million members, five billion euros in turnover, 419 outlets including 56 hypermarkets, and over 22,000 employees. The new retail giant extends from Italy's extreme northern Trentino region to Sicily in the south.

One particular characteristic of the Italian retail and distribution sector is the large number of buying groups which emerged from the mid-1990s onwards with the aim of sourcing products more cheaply through greater purchasing power. Virtually all major Italian grocery retailers are members of a buying group, with the major ones being Intermedia (whose members include Rinascente, Gruppo Pam and Conad), Mecades (Interdis, Sisa and SPAR), Co-op Italia (Co-op and Sigma), Esd Italia (Esselunga, Selex and Agorà) and Carrefour Italia (with Carrefour, Finiper and Il Gigante). The presence of these buying groups has for many years presented a market entry barrier for foreign retailers, which have entered the market mainly via joint ventures with local operators. Several foreign multinationals have entered into partnerships with local players in order to make use of their local know-how and expand into the Italian market.

Italian importers are usually small to medium-sized companies, rather than the large, market-dominating varieties found in northern Europe. Consequently, these companies import on a smaller scale, but often a broader range of products than their much larger counterparts. Most imported food products enter the Italian market through brokers or specialized traders. Price is an increasingly important basis for import purchase decisions, although quality and novelty do move some products. Imported products from North America often enter Italy indirectly from the Netherlands' Port of Rotterdam or directly via air. Wholesalers are the main customers for fish and seafood products, as they purchase and distribute products to consumers through supermarkets, hypermarkets, local fish shops, restaurants, and fishmongers and fish processors. In Italy, there are

over 1000 fish wholesalers--100 of which are considered to be importers.

MASS GROCERY RETAIL SALES BY FORMAT (ITALY 2005-2014)										
	2005	2006	2007	2008	2009	2010	2011	2012	2013e	2014f
Supermarket sales, USDbn	36.6	38.8	44.5	49.6	45.9	44.5	47.1	42.6	43.9	42.6
Hypermarket sales, USDbn	10.7	11.0	12.2	13.2	12.9	12.5	13.1	11.7	12.2	11.8
Discount store, USDbn	6.2	6.4	7.1	7.7	7.2	6.9	7.2	6.5	6.8	6.6
Convenience store sales, USDbn	1.2	1.2	1.3	1.4	1.3	1.3	1.4	1.2	1.3	1.2
Total mass grocery retail sales, USDbn	54.7	57.4	65.1	71.9	67.4	65.2	68.8	62.1	64.2	62.3

e/f = estimate/forecast. Source: National sources, BMI

MASS GROCERY RETAIL SALES BY FORMAT (ITALY 2005-2014)										
	2005	2006	2007	2008	2009	2010	2011	2012	2013e	2014f
Hypermarket sales, EURbn	8.6	8.8	8.9	9.0	9.2	9.4	9.5	9.2	9.2	9.3
Total mass grocery retail sales, EURbn	44.0	45.7	47.5	48.9	48.1	49.2	49.5	48.9	48.6	49.0
Supermarket sales, EURbn	29.4	30.9	32.4	33.7	32.8	33.5	33.9	33.6	33.2	33.5
Convenience store sales, EURbn	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Discount store sales, EURbn	5.0	5.1	5.2	5.2	5.2	5.2	5.2	5.1	5.2	5.2

e/f = estimate/forecast. Source: National sources, BMI

Section IV. Best Products Prospects

The consumer food/edible fishery and forestry products that offer the best U.S. export opportunities are as follows:

Product Category	2014 Imports	5-Yr. Avg. Annual Import % Growth in value (2009-2014)	Import Tariff Rate 2014	Market Attractiveness for USA
Tree Nuts	\$276 million	18.6	See at: http://ec.europa.eu/taxation_customs/customs/customs_duties/index_en.htm	The United States is the biggest supplier of tree nuts to Italy. Most tree nuts are used as ingredients by the food processing sector.

				Almonds are the most important commodity within this category. Further products with good sales potential include pistachios, pecans and walnuts.
Forest Products	\$176.5 million	4.7		The United States is a longstanding supplier of forest products to Italy that are imported mainly for the furniture and building sectors.
Wheat	\$147.3 million	9.5		Local production does not satisfy Italian pasta production demand.
Soybean Meal	\$103.1 million	281.2		Local production does not satisfy Italian feed demand.
Fish products	\$94.1 million	5.8		The Italian market offers lucrative opportunities for fish and seafood products. Fish consumption is growing as consumers associate fishery products with a healthy diet. Best prospects for U.S. and seafood exports are salmon, shrimps, crabs, caviar substitutes, cuttle fish and squid, sea urchins catfish and scallops.
Processed vegetables	\$93.4 million	8.3		U.S. exports to Italy are slowly increasing, especially for off season products. Those products are mostly used as ingredients by the food processing and canned sectors.
Beef and beef products	\$74.7 million	122.8		Very good opportunities for U.S. high quality beef

				produced without growth hormones. The EU quota determines the amount allowed.
Soybeans:	\$53.6 million	161.6		Local production does not satisfy Italian feed demand.

U.S. bulk and intermediate commodities are used as ingredients or inputs for value-added Italian products that are re-exported. North American high-quality durum wheat, for example, is used to produce pasta. Opportunities exist for tree nuts, wheat, hides and skins, and wood/lumber - all sectors that have seen growth in recent years. Italy also is the world's fifth largest importer of seafood products, with an estimated annual consumption of almost 21 kilograms of fish and seafood. Last year Italy imported \$94 million from the United States in seafood products. Opportunities exist in the supply of fish, especially tuna, salmon, crab, surimi, roe, seafood for the canning industry, frozen fish fillets such as hake, cod and plaice to meet the demand for convenient, ready-to-prepare products, peeled and processed shrimp, squid, cuttlefish, octopus and lobster.

A. U.S. products in the Italian market that have good sales potential:

Wild salmon from Alaska
Lobster
Dried plums
Tree nuts
Wheat
Tex Mex and other ethnic foods
Sauces and condiments

B. Products not present in significant quantities but which have good sales potential:

Snacks
Scallops
Chocolate
Specialty/Microbrew Beer

C. Products not present because they face significant trade barriers:

Beef, other than that sold thru the High Quality Beef Quota
Poultry (non-tariff barrier)
Processed food products containing biotech ingredients

Section IV. Post Contact and Further Information

Local Time

The time zone for Italy is 6 hours ahead of U.S. Eastern Standard Time.

Holidays

Italian holidays must be taken into account when planning to do business in Italy. July and August are not good months for conducting business in Italy, since most business firms are closed for vacation during this period. The same is true during the Christmas and New Year period.

Trade & Demographic Information - Italy 2014

Agricultural, Fish/Forestry Imports from the U.S. \$1.4 billion	Consumer Food Imports from the U.S. \$408 million
Fish and Seafood Imports from the U.S. \$94 million	Unemployment Rate: 12.4 percent
Italian Population 62 million	Total Rural Population: 20 Million
Foreign Population 5 million (approx.)	Total Urban Population: 40 Million
Gross Domestic Product: \$2.1 trillion	Per Capita Income: \$35,500
Exchange Rate: EURO per U.S. Dollar Average 2014: €0.7489 = \$1.00	Labor Force 26 million

Source: BICO, ISTAT, Global Trade Atlas, and European Central Bank

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